



**ZOO Digital Group plc
Unaudited Interim Results
for the six months ended
30 September 2011**

Chairman and Chief Executive's Statement

The Company provides the following report on the first six months of the year.

While encouraging progress continues to be made in developing ZOO's products that address the eBooks and wider publishing markets, the turmoil and changing dynamics within the home entertainment industry, highlighted at the time of our AGM in September, has continued to impact upon the Company's financial performance. Revenue for the six months to 30 September 2011 is lower at this stage of the year than last year at \$5.9 million (2010: \$8.1 million) which has led to an operating loss of \$1,087,000 for the first six months (2010: profit of \$880,000).

The decline in DVD sales has been well documented. Although ZOO's revenues are not directly related to the number of DVD units sold, our large customers are reducing the *number* of titles being released on DVD and this leads to a decreased number of titles being processed by ZOO's software tools and by our production services team in Los Angeles. The decline in the number of new episodic TV releases on DVD, which have made up the greatest proportion of ZOO's volumes, has been particularly sudden since the summer months.

We have already reduced our US headcount and restructured our cost base to give a lower fixed overhead, better equipping us to deal with volatility in the market. Costs associated with this have caused our operating expenses to increase slightly compared with 2010, but the changes should result in an annualised reduction in our fixed costs of approximately \$1.2m. Support from our shareholders and loan note holders helped us to redeem part and reschedule the remainder of the convertible loan note of \$5.6m which had been due to mature in October 2011. This leaves us with a much stronger balance sheet and cash at the period end of \$1.5m.

In contrast to the decline in our traditional business, there has been an increase in the number of titles that are being prepared using ZOO's software for both Blu-ray and Electronic Sell Through ("EST") platforms. We expect this trend to continue, although it has not yet been sufficient to offset the decline in the DVD market. Reassuringly, the indications are that the volume of work carried out by ZOO as a percentage of our clients' overall throughput has not decreased. In fact, the success that ZOO has had within its largest customer of reducing the cost of title production, reducing the time to market and enhancing the overall quality of the end product, has led to this customer looking to use our automated workflow management tools within other business units.

ZOO has changed its operations and focus markedly over the last few years to ensure that it can respond to the changing needs of the industries in which it operates. This is evidenced by our increasing participation in the eBook market, where we continue to gain traction and enhance our reputation with publishers and content delivery partners. Whilst still a nascent market, the pace of growth within this area has been staggering; some US publishers have reported that 20% of their total sales are now attributed to eBooks, and Futuresource Consulting, a specialist research consulting firm in the area of entertainment media, forecasts that by 2015 one in every five titles sold in Western Europe will be an eBook.

As with many new technologies the initial approaches for converting printed titles to electronic formats have been effective but crude, meaning that the titles converted so far have been predominantly text-only in genres such as fiction. Our fixed layout conversion solution supports highly designed content, enabling conversion of a much wider range of genres of books such as children's, travel and cookery to be adapted to the same high standards digitally as in their print formats. The leading players in this industry, such as Amazon (Kindle), Apple (iPad) and Barnes & Noble (Nook) are investing in enhanced products and new formats to improve readers' experience which we believe will stimulate demand for these higher quality, content-rich titles. Importantly, each of these three devices uses a different technical format, meaning that publishers and authors need to find a way to publish and tailor their content for a number of different platforms – a job for which ZOO's eBook Builder software has been designed. ZOO has a highly differentiated offering for eBook production, and delivery of our tools under a 'software as a service' (SaaS) model is particularly well-suited to the needs of many publishers; we are therefore making significant

Chairman and Chief Executive Statement (Cont.)

investments in software development and sales resource for this market opportunity, and expect it to become a major contributor to the Company's revenue and profit.

We have also continued to make progress with our *iTunes® Extras* and *iTunes®LP* software, which eases the process for content owners of movies, TV programming and musical albums to provide and regionalise enhanced content for the EST market and we expect further growth in this area.

Within the six month period we were also pleased to be able to announce the first significant contract to be won through our collaboration with MPS, working with a leading international videogame publisher to regionalise their packaging materials for multiple territories and languages. We continue to target a number of other opportunities with MPS where our solutions provide significant value for the preparation of global print and packaging materials.

Outlook

The decrease in revenues from the production of DVDs has been caused, we believe, by a fundamental shift in consumers' purchasing patterns accelerated by the poor economic environment, where a number of factors have led to consumers buying fewer disc based products as they move away from building physical libraries of filmed and TV entertainment. While the studios have previously been confident that these declines could be arrested, we do not expect to see revenues generated from DVD work to return to previous levels. However, these same dynamics have also created many opportunities for ZOO, both through existing customers such as the film and TV studios that are looking to use our automated workflow tools to generate efficiencies in other areas of their businesses, and through our entry into new markets, such as eBook publishing and music where we previously had no presence.

The decline in our traditional revenues during the first half of the year was steeper than we had expected, and although we are now seeing increases in the new areas of business such as Electronic Sell Through, Blu-ray and eBook production, the timing of these new revenue streams means that the full year results for the Company will fall short of the Board's previous expectations. The Board does remain confident that the work being undertaken to diversify the Company's revenue streams will improve the predictability and resilience of the business model while allowing the Company to return to profitability. While the progress of these new initiatives has been slower than the Board had hoped for, we look forward to updating shareholders on our progress in due course.

The Company's ability to adapt its products and business model to meet the new opportunities presented by the radically changing nature of digital media preparation, marketing and consumption, coupled with the actions we have already taken to reduce our fixed cost base, give the board confidence in the future success of the Company.

Roger D Jeynes
Chairman

Dr Stuart A Green
Chief Executive Officer

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)
for the six months ended 30 September 2011**

	6 months to 30 Sep 2011	6 months to 30 Sep 2010	Year ended 31 Mar 2011
	\$000	\$000	\$000
Revenue	5,878	8,060	13,757
Cost of sales	(1,340)	(1,920)	(2,388)
Gross profit	4,538	6,140	11,369
Other operating income	21	35	135
Operating expenses	(5,646)	(5,295)	(10,158)
Operating (loss)/profit	(1,087)	880	1,346
Finance income	-	-	-
Exchange gain/(loss) on borrowings	73	(233)	(300)
Finance cost	(281)	(259)	(535)
Total finance cost	(208)	(492)	(835)
(Loss)/profit before taxation	(1,295)	388	511
Tax on (loss)/profit	(2)	-	484
(Loss)/profit for the period attributable to equity holders of the parent	(1,297)	388	995
Total Comprehensive income	(1,297)	388	995
Comprehensive income attributable to equity holders of the parent	(1,297)	388	995
(Loss)/profit per share			
basic	(5.19) cents	1.72 cents	4.29 cents
diluted	(5.19) cents	1.16 cents	2.84 cents

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)
as at 30 September 2011**

	As at 30 Sep 2011 \$000	As at 30 Sep 2010 \$000	As at 31 Mar 2011 \$000
ASSETS			
Non-current assets			
Property, plant and equipment	566	511	549
Intangible assets	9,248	7,657	8,480
Deferred income tax assets	486	-	486
	10,300	8,168	9,515
Current assets			
Inventories	-	-	80
Trade and other receivables	2,665	2,618	3,016
Cash and cash equivalents	1,490	1,914	600
	4,155	4,532	3,696
Total assets	14,455	12,700	13,211
LIABILITIES			
Current liabilities			
Trade and other payables	(3,029)	(3,834)	(3,319)
Borrowings	(225)	(169)	(5,709)
	(3,254)	(4,003)	(9,028)
Non-current liabilities			
Borrowings	(2,925)	(5,470)	(191)
Total liabilities	(6,179)	(9,473)	(9,219)
Net assets	8,276	3,227	3,992
EQUITY			
Equity attributable to equity holders of the parent			
Called up share capital	7,236	5,097	5,127
Share premium account	36,845	33,626	33,626
Other reserves	12,293	12,293	12,293
Share option reserve	278	282	278
Warrant reserve	315	65	190
Convertible loan note reserve	42	380	380
Foreign exchange translation reserve	(992)	(995)	(992)
Accumulated losses	(47,721)	(47,402)	(46,782)
	8,296	3,346	4,120
Interest in own shares	(20)	(119)	(128)
Attributable to equity holders	8,276	3,227	3,992

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(UNAUDITED)**

for the six months ended 30 September 2011

	Ordinary shares \$000	Share premium reserve \$000	Foreign exchange translation reserve \$000	Convertible loan note reserve \$000	Share option reserve \$000	Share warrant reserve \$000	Other reserves \$000	Accumu- lated losses \$000	Interest in own shares \$000
Balance at 1 April 2010	4,573	32,899	(992)	380	267	50	12,293	(47,822)	(4)
Issue of shares	468	779							
Issue costs		(52)							
Foreign exchange translation adjust- ment			(3)					4	
Purchase of own shares									(115)
Share-based pay- ments					43	15			
Exercise of share options	56				(28)			28	
Profit for period								388	
Balance at 30 September 2010	5,097	33,626	(995)	380	282	65	12,293	(47,402)	(119)
Foreign exchange translation adjust- ment			3					(4)	
Share-based pay- ments					26	125			
Exercise of share options	30				(13)			14	
Forfeited Share options					(17)			3	
Purchase of own shares									(9)
Profit for period								607	
Balance at 31 March 2011	5,127	33,626	(992)	380	278	190	12,293	(46,782)	(128)
Issue of shares	1,017	1,695							
Issue costs		(241)							
Redemption of Convertible loan stock	1,059	1,795		(380)				343	
Issue of Converti- ble loan stock				42					
Disposal of own shares									108
Share-based pay- ments						125			
Exercise of share options	33							15	
Loss for period								(1,297)	
Balance at 30 September 2011	7,236	36,875	(992)	42	278	315	12,293	(47,721)	(20)

**CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)
for the six months ended 30 September 2011**

	6 months to 30 Sep 2011	6 months to 30 Sep 2010	Year ended 31 Mar 2011
	\$000	\$000	\$000
Cash flows from operating activities			
Operating (loss)/profit for the period	(1,087)	880	1,346
Depreciation	259	238	424
Amortisation and impairment	283	195	497
Share based payments	140	58	196
Purchase of own shares	-	(115)	(124)
Disposal of own shares	108	-	-
Disposal and derecognition of intangible assets	-	-	24
Exchange loss/(gain)	18	(82)	-
Changes in working capital:			
Decreases in inventories	80	365	285
Decreases/(increases) in trade and other receivables	351	49	(349)
Decreases in trade and other payables	(290)	(929)	(1,444)
Cash flow from operations	(138)	659	855
Tax paid	(2)	-	(2)
Net cash flow from operating activities	(140)	659	853
Investing Activities			
Purchase of intangible assets	(1,051)	(949)	(2,098)
Purchase of property, plant and equipment	(47)	(191)	(415)
Net cash flow from investing activities	(1,098)	(1,140)	(2,513)
Cash flows from financing activities			
Repayment of borrowings	(209)	(43)	(144)
Proceeds from borrowings	-	67	288
Finance cost	(149)	(184)	(386)
Share and convertible loan issue costs	(241)	(52)	(52)
Issue of Share Capital	2,745	1,303	1,333
Net cash flow from financing	2,146	1,091	1,039
Net increase/(decrease) in cash and cash equivalents	908	610	(621)
Cash and cash equivalents at the beginning of the period	600	1,221	1,221
Exchange (loss)/gain on cash and cash equivalents	(18)	83	-
Cash and cash equivalents at the end of the period	1,490	1,914	600

NOTES

General information

ZOO Digital Group plc ('the company') and its subsidiaries (together 'the group') provide productivity tools and services for digital content authoring, video post-production and localisation for entertainment and packaging markets and continue with on-going research and development in those areas. The group has operations in both the UK and US.

The company is a public limited company which is listed on the Alternative Investment Market and is incorporated and domiciled in the UK. The address of the registered office is The Tower, 2 Furnival Square, Sheffield.

The registered number of the company is 3858881.

This condensed consolidated financial information is presented in US dollars, the currency of the primary economic environment in which the company operates.

The interim accounts were approved by the board of directors on 5 December 2011.

This consolidated interim financial information has not been audited.

Basis of preparation

The consolidated financial statements of ZOO Digital Group plc and its subsidiary undertakings (the "Group") for the period ended 31 March 2012 will be prepared in accordance with those International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

This Interim Report has been prepared in accordance with UK AIM listing rules which require it to be presented and prepared in a form consistent with that which will be adopted in the annual accounts having regard to the accounting standards applicable to such accounts. It has not been prepared in accordance with IAS 34 "Interim Financial Reporting".

The policies applied are consistent with those set out in the annual report for the year ended 31 March 2011, and have been consistently applied, unless stated otherwise.

A copy of the statutory accounts for the year ended 31 March 2011, prepared under IFRS, has been delivered to the Registrar of companies and contained an unqualified auditors' report.

Basis of Consolidation

The consolidated financial statements of ZOO Digital Group plc include the results of the Company and its subsidiaries. Subsidiary accounting policies are amended where necessary to ensure consistency within the Group and intra group transactions are eliminated on consolidation.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US Dollars which is the company's functional and presentation currency.

Transactions and balances

Transactions in foreign currencies are recorded at the prevailing rate of exchange in the month of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the year end exchange rates are recognised in the income statement.

NOTES continued

Group companies

The results and financial positions of all group entities that use a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each entity are translated at the closing rate at the balance sheet date;
- income and expenses for each income statement are translated at the prevailing monthly exchange rate for the month in which the income or expense arise and all resulting exchange rate differences are recognised with foreign exchange translation reserve.

Equity securities issued

	30 September 2011		30 September 2010		31 March 2011	
	No. of shares	\$000	No. of shares	\$000	No. of shares	\$000
Issues of ordinary shares during the period						
Exercise of employee share options	135,655	33	246,866	57	371,192	86
Investment from Multi Packaging Solutions Inc	-	-	2,148,642	1,246	2,148,642	1,246
Redemption of convertible loan note	4,426,250	2,824	-	-	-	-
Issue of new shares	4,252,500	2,712	-	-	-	-
	8,814,405	5,569	2,395,508	1,303	2,519,834	1,332

Earnings per share

Earnings per share is calculated based upon the profit or loss on ordinary activities after tax for each period divided by the weighted average number of shares in issue during the period.

Weighted average number of shares for basic & diluted profit/ (loss) per share	30 Sep 2011	30 Sep 2010	31 Mar 2011
	No. of shares	No. of shares	No. of shares
Basic	24,984,561	22,578,604	23,182,299
Diluted	30,661,430	33,356,198	35,081,125

Further Copies

Copies of this announcement and the Interim Report for the six months ended 30 September 2011 will be available, free of charge, for a period of one month from the Company's Nominated Adviser and Broker, FinnCap, 60 New Broad Street, London, EC2M 1JJ, from the registered office of the Company at The Tower, 2 Funnival Square, Sheffield, S1 4QL or from the Group's website: www.zoodigital.com.

COMPANY INFORMATION

Registered office

The Tower
2 Furnival Square
Sheffield
S1 4QL

Bankers

Royal Bank of Scotland
3rd Floor
2 Whitehall Quay
Leeds
LS1 4HR

Nominated advisor and broker

FinnCap
60 New Broad Street
London
EC2M 1JJ

Company number

3858881

Solicitors

DLA Piper UK LLP
1 St Paul's Place
Sheffield
S1 2JX

Registrar

Share Registrars Ltd
Suite 5, First Floor
Lion & Lamb Yard
Farnham
Surrey
GU9 7LL

Directors

RD Jaynes
Chairman

Dr SA Green
Chief Executive Officer

HP Gilder
Group Finance Director
and Company Secretary

G Doran
Commercial Director

JA Livingston
Non-Executive Director

Auditors

PKF (UK) LLP
2nd Floor
Fountain Precinct
Balm Green
Sheffield
S1 2JA

Public Relations

Threadneedle Communications
Aldermay House
Third Floor, 10-15 Queen Street
London
EC4N 1TX

ZOO Digital Group plc

The Tower
2 Furnival Square
Sheffield
S1 4QL

T: 0114 241 3700

F: 0114 241 3701

